



UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON 25, D. C.

MAY 11 1963

DOI Waiver Letter In ERU File

Dear Senator Javits:

As promised in my letter to you of April 25, 1963, we have reviewed the supply and demand of fuels in the Soviet Union and Eastern Europe satellites. We have also examined the original source of the information quoted in your letter of April 18, and find the material, although containing some political overtones in favor of the Polish economy, to represent a fairly authoritative statement of the problem facing Soviet Bloc nations.

Projections as far as 30 to 40 years forward are highly speculative and subject to wide variation in ideas as to what lies ahead. This is especially true with respect to energy, where developments in the nuclear field conceivably could result in drastic changes in the energy pattern -- given the impetus of an economic "break-through" versus conventional fuels. Our comments therefore apply only to the relatively near future.

Current estimates show that Eastern Europe (exclusive of the Soviet Union) is now an energy-deficit area and that this status has been reached much earlier than anticipated. To meet the growing energy requirements of East Europe will not be easy for the USSR. The growth in domestic production of crude oil is being hampered by a lack of equipment suitable for the discovery and development of new fields. At the same time, extraction of coal has fallen well below plan and production of gas has been disappointing. Thus, more petroleum will be required at home to make up for below-plan output of coal and gas. It is probable that for the next several years at least the growth in availability of petroleum may be closely paralleled by a growth in Soviet domestic demand.

There is no doubt that the Soviet Union already has proved oil reserves adequate to support a production level considerably higher than that required to meet anticipated Soviet domestic and East Europe satellite oil demand. The real questions are: (1) how fast will these reserves be developed, or new discoveries made productive (2) how much of the productive capacity thus created will be used for exports to East Europe, Cuba and Communist China, and (3) how much more will be available for export to Western markets.

The answers to these questions are difficult to predict. The solution to the first obviously is a function of capital investment, plus improved efficiency and advanced technology; the second is directly related to Soviet willingness to sacrifice growth in home demand in favor of supplying the satellite nations; the third is primarily governed by political decisions.

In the report prepared at my request last October by the National Petroleum Council, it is noted that exports of oil from the Soviet Union to satellite countries of East Europe in 1965 might reach 20 million metric tons (400,000 barrels daily) compared with only 9 million tons (180,000 barrels daily in 1960. Soviet plans already envisage the delivery of 15 million tons (300,000 barrels daily) to Eastern European satellites through the "Friendship" pipeline system in 1965. An additional 5 million tons (100,000 barrels daily) is presently expected to move into these countries by a combination of tanker deliveries from Black Sea ports and overland means other than pipelines, although the "Friendship" pipeline is capable of being expanded to an ultimate capacity of 35 million tons (700,000 barrels daily) by the addition of pumping stations as needed.

Available evidence does not support the probability of any dramatic upsurge in the export of oil to non-Bloc countries from the USSR, at least through 1965. Nonetheless, continued Soviet effort to increase its tanker fleet, plus construction of pipelines to and expansion of export facilities in the Black Sea area indicate that exports of oil from this source will continue to grow, although at a slower rate than that observed for past years.

In this connection, the National Petroleum Council report referred to above estimated that exports of Soviet oil to Western nations would increase from 565,000 barrels daily in 1961 to almost 1,000,000 barrels daily in 1965. Current evidence, based largely on performance during 1962, when Soviet exports to the Free World showed a relatively modest gain over the 1961 level as compared with prior annual increases ranging from 25-65%, tends to indicate that 1965 exports to the West may be somewhat less than the 1,000,000 barrels daily previously estimated.

Sincerely yours,

(Signed: Stewart L. Udall)

Secretary of the Interior

Hon. Jacob K. Javits
United States Senate
Washington 25, D. C.

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